Dynamics of the Media and Content Industries

Value creation through changing cost & revenue structures
Summary of contents

- Physical market contraction & e-book development drives changes in publishing processes.

- Price reduction (+illegal consumption) behind industry restructuring and efficiency plans.

- On the revenue side, new e-business models might help to generate new revenues.

- Is transmedia storytelling the “name of the game”? 
Main Challenges

Market changes (i.e., Spain)

**2011**

<table>
<thead>
<tr>
<th></th>
<th>Bookstores</th>
<th>e-commerce</th>
<th>e-books</th>
<th>Other Channels</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1140</td>
<td>50</td>
<td>15</td>
<td>36</td>
<td>1240</td>
</tr>
</tbody>
</table>

**2015 (est.)**

<table>
<thead>
<tr>
<th></th>
<th>Bookstores</th>
<th>e-commerce</th>
<th>e-books</th>
<th>Other Channels</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>900</td>
<td>150</td>
<td>200</td>
<td>20</td>
<td>1270</td>
</tr>
</tbody>
</table>

Industry challenges

- Lack of industry growth, with changes in nature:
  - Logistic.
  - Sales & administrative.
  - Book design and industrial processes.
  - Promotion (internet, social networks).
Total market evaluation, YoY 2011 vs. 2012* (Physical: All countries; Digital: Benelux, Italy and Spain) 

<table>
<thead>
<tr>
<th>Total market</th>
<th>Digital market</th>
<th>Physical market</th>
<th>Base in EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>-4.4%</td>
<td>+128.5%</td>
<td>-4.6%</td>
<td>6.75 Bn</td>
</tr>
<tr>
<td>6.75 Bn</td>
<td>17.87 Mill.</td>
<td>6.73 Bn</td>
<td></td>
</tr>
</tbody>
</table>

*cw 52/2010 - 36/2011 vs. 01/2012 - 37/2012

Source: GFK
European market evaluation, digital vs. physical sales, YoY 2011 vs. 2012* (Benelux, Italy and Spain)

<table>
<thead>
<tr>
<th></th>
<th>Physical</th>
<th>Digital</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>Units</td>
</tr>
<tr>
<td>Fiction</td>
<td>-4.2%</td>
<td>-4.8%</td>
</tr>
<tr>
<td>Non Fiction</td>
<td>-5.8%</td>
<td>-7.2%</td>
</tr>
<tr>
<td>Children</td>
<td>-1.3%</td>
<td>-3.4%</td>
</tr>
</tbody>
</table>

*cw 52/2010 - 36/2011 vs. 01/2012 - 37/2012 ; Base: Total physical and digital market (value in EUR)
Source: GFK
Digital books development YoY 2011 vs. 2012*

<table>
<thead>
<tr>
<th>Country</th>
<th>Volume in Mill. – YTD</th>
<th>Value in Mill. EUR - YTD</th>
<th>Average Price in EUR - YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2011</td>
<td>2012</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0,12</td>
<td>0,67</td>
<td>10,02</td>
</tr>
<tr>
<td></td>
<td>0,28</td>
<td>0,77</td>
<td>7,24</td>
</tr>
<tr>
<td></td>
<td>0,43</td>
<td>0,80</td>
<td>10,53</td>
</tr>
<tr>
<td></td>
<td>1,2</td>
<td>** 4,6</td>
<td>** 10,23</td>
</tr>
</tbody>
</table>

*cw 52/2010 - 36/2011 vs. 01/2012 - 37/2012; Base: total value (EUR) / volume digital books per country
** Germany Q1+Q2 2011/2012

Source: GFK
# Title database, September 2012

## Physical market

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5,500,000</td>
</tr>
</tbody>
</table>

## Digital market

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>400,000</td>
</tr>
</tbody>
</table>

Source: GFK
Changes in competitive battleground

Traditional Industry structure

- Publishers
- Authors/Readers
- Traditional retailers
- Logistics

New competitive environment

- Publishers/e-publishers
- Printing industry
- Authors/Readers
- Traditional retailers
- Logistics

- Traditional
- POD
- Digital
- Physical
- Internet
- E-commerce
- Telco

New/more intense players.
2011 reading device evolution in Spanish market

Sales ratio e-book / e-reader

Source: GfK

Spanish reading devices endowment

Total: 1.3 M units
Tablets: 0,8 M
Readers: 0,5 M
E-book price evolution in Spanish leading bookstore chain

• Average e-book price discounts physical price by 55% (61% taking into account VAT rates).
High concentration on e-retailers market share (January-June 2012)

US: 63% Amazon, 5% Apple, 27% Barnes & Noble, 5% Resto
UK: 75% Amazon, 15% Apple, 19% Barnes & Noble, 21% Resto
Francia: 27% Amazon, 21% Apple, 19% Barnes & Noble, 9% Resto
España: 35% Amazon, 9% Apple, 28% Barnes & Noble, 4% Resto

Fuente: Nielsen, American Publishers Association y elaboración propia
Illegal consumption rates in Spain
€ million, percentages 2011

<table>
<thead>
<tr>
<th></th>
<th>Music</th>
<th>Videogames</th>
<th>Movies</th>
<th>Books</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legal market</strong></td>
<td>63</td>
<td>340</td>
<td>801</td>
<td>1,060</td>
<td>2,262</td>
</tr>
<tr>
<td><strong>Piracy rate</strong></td>
<td>98,2%</td>
<td>61,7%</td>
<td>73,9%</td>
<td>49,3%</td>
<td>77,3%</td>
</tr>
</tbody>
</table>

- Piracy accounted for 77% of digital contents consumed in 2011 in Spain.
- Book piracy jumped from 19,7% in 2009 to 49,3% in 2011.

Source: Spanish Publishers Federation, IDL, Piracy Observatory
Transmedia storytelling as new revenue source

Harry Potter’s transmedia map

User Generated contents

Books

Movies

Videogames

Merchandising

Harry Potter’s Thematic Park

Web (Pottermore)

Should/could publishers develop skills to capture non-traditional revenue sources?
Revenue generating potential of global best-sellers

Harry Potter (7)
- Million units sold: 450
- Million $: 9,000

Twilight (4)
- Million units sold: 116
- Million $: 2,088

Narnia Chronicles (7)
- Million units sold: 120
- Million $: 2,160

Da Vinci Code
- Million units sold: 80
- Million $: 1,600

The Alchemist
- Million units sold: 65
- Million $: 975

Millenium (3)
- Million units sold: 53
- Million $: 1,060

Wallander (10)
- Million units sold: 25
- Million $: 500

Shadow of the Wind (1)
- Million units sold: 20
- Million $: 400

The Godfather (3)
- Million units sold: 21
- Million $: 420
A few enlightening quotes

“It is not the strongest of the species that survives, nor the most intelligent. It is the one that is most adaptable to change”.
Charles Darwin

“If a sailor does not know to which port he is steering, no wind is favorable to him”.
Séneca

“We have moved from a world in which big fish eat little fish, to a world in which the fast fish eats the slow fish”.
Tom Peters

“Every morning in Africa, a Gazelle wakes up. It knows it must run faster than the fastest Lion or it will be killed. Every morning a Lion wakes up. It knows it must outrun the slowest Gazelle or it will starve to death. It does not matter whether you are a Lion or a Gazelle... when the sun comes up, you’d better be running”.
Masai Proverb